INSIGHTS

Q4 2021 REPORT

Pengana WHEB Sustainable Impact Fund

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DRUG PRICING AND IMPACT INVESTING

Background

President Biden's Build Back Better agenda has reignited the debate about drug pricing. Arguments generally fall into two camps. On the one hand is concern about the increasing burden of health care costs. On the other hand, are arguments that drug prices are needed to support innovation and recoup the high cost of failures.

For impact investors, this is an important issue. In a previous article we talked about how it is possible to reconcile pricing power and impact across a range of themes.[1] However, we called out pharmaceutical companies as an example where exploitation of that power can reduce impact. That occurs when the positive benefit of the treatment comes at an unjustifiable cost, that in turn leads to limited access and unsustainable burdens on vulnerable individuals and their families.

More recently we have looked at several pharmaceutical companies and tried to answer the question: what cost is justified?

Outlining the problem

Inevitably, the issue is not straightforward. The common perception of 'evil pharma' or governments attacking innovation are unhelpful and oversimplify a complex challenge.

There is clearly significant public interest in supporting innovation that leads to new drugs. Patent protection is needed to enable innovative firms to make the investments needed to develop these new drugs. However, there is a difficult balance to strike. Patents can encourage investment, but if the protection is too generous, the incentive to invest further is reduced.[2]

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[1] WHEB (2017), Sharing the wealth: pricing power and impact - WHEB (whebgroup.com)
[2] BMJ (2020), https://www.bmj.com/content/368/bmj.l4627

In addition, patent incentives are currently skewed towards incremental improvements which carry lower risks than truly innovative drugs where there is a greater chance of failure.[3] This problem is compounded by a lack of transparency in pricing, particularly in the US system. There is also a lack of information about costs.[4]

US-specific issues

Potentially the biggest issue in the US is the absence of value-based pricing. Many OECD countries require companies to submit a cost-benefit analysis and will only pay up to a maximum level. This is usually defined with reference to the number of years of added life and takes into account quality of life.[5] The US has no such requirement.

Bargaining power is also important. In many countries one government body negotiates drug prices. In the UK the National Institute for Health and Care Excellent (NICE) plays this role. In the US, government bodies like Medicare are explicitly prohibited from participation in negotiations. These are carried out by individual commercial insurers which dilutes their bargaining power.

Finally, there are major information asymmetries. Often neither doctors nor patients have accurate pricing information. This is partly due to a complex network of intermediaries. Rebates and reimbursements also mean the published list price is often very different to the price actually paid.

The result is that US drug prices are substantially higher than in other developed countries.[6] The US pharma industry argue that the US is subsidising drug development for those countries and therefore the premium is warranted. Evidence suggests that claim may be inflated.[7]

From system-level to company analysis

The easy answer to this problem is to punt it to government and say that these are policy challenges best addressed by governments. But this approach ignores the risks that the current cost of US healthcare creates for the drug therapy companies. It also ignores the extent to which management teams can mitigate this risk for their businesses.[8]

Instead, our approach is to analyse drug pricing systematically. This leads to a more holistic view of impact and a better understanding of risk. The first step is analysing the positive impact, taking into account the health need being addressed and the level of innovation.

There are then three important aspects of pricing to consider: company policy, internal processes and performance. Policies tell you more about governance structures and transparency. Internal processes provide an insight into whether the company takes a value-based approach that considers costs and benefits, or whether it is simply trying to maximise profit. Performance then

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[3] Blood Cancer Journal (2020), "The high cost of prescription drugs: causes and solutions" https://www.nature.com/articles/s41408-020-0338-x

[4] World Economic Forum (2019), Why transparency in drug pricing is more complicated than it seems (https://www.weforum.org/agenda/2019/10/transparency-drug-pricing/)

[5] PubMed (2017), The NICE cost-effectiveness threshold: what it is and what it means, https://pubmed.ncbi.nlm.nih.gov/18767894/#:~:text=The%20National%20Institute%20for%20Health,sterling%20for%20over%207%20years

[6] Harvard School of Public Health (2019), The need to treat the ailing US Pharmaceutical Pricing System, https://www.hsph.harvard.edu/ecpe/united-states-pharmaceutical-pricing/

[7] Health Affairs (2017), R&D costs for pharmaceutical companies do not explain elevated US drug prices, https://www.healthaffairs.org/do/10.1377/forefront.20170307.059036/full/

[8] As one of the largest sources of lobbying spending, this argument also ignores the role that the drug industry plays in shaping the regulatory framework.

looks at the outcome: how has the company behaved in practice? For example, is there a history of aggressive price increases?

The lack of transparency in the industry means this can be difficult on a drug-by-drug basis. However, there are some useful external sources. In the UK any approved drug will have published evidence demonstrating an assessment of the health outcomes against the cost.[9] In the US, there is a body called ICER that does similar work, although on a narrower range of drugs.[10]

Reaching a conclusion on whether a given drug price is "justifiable" is fraught with challenges. The price is part of the story, but the key is understanding the value. Overall, we think a more systematic approach that builds on evidence of value with analysis of policies, processes and performance provides a much clearer picture of impact and risk and ultimately likely returns as well.

COP26: 'MORE THAN EXPECTED, LESS THAN HOPED

After the emotional scenes nearly two months ago at the end of COP26, has a bit of distance provided any more perspective on the outcomes? Our view is still best captured by the Financial Times headline that proclaimed that more was achieved than expected, but still less than hoped. There were positive steps accomplished at the conference, but these need to be immediately caveated by what was not achieved. For example, the new emission reduction pledges that were made amount to a not insignificant reduction of 0.3°C in anticipated warming. But even with all targets fully met this still amounts to a central forecast of 1.8°C of warming.

The list goes on. The Glasgow Climate Pact mentioned fossil fuels in the text for the first time in a global agreement, but commitments on coal were limited to 'phasing down' rather than 'phasing out'. The need for a 'just transition' was also acknowledged, but financial commitments to support the zero-carbon transition in developing countries were still inadequate.

The shape and pace of the transition is now clear

Notwithstanding these clear failings in the final text, the conference did clarify what is needed in terms of the shape and pace of the zero-carbon transition in key areas. Central to achieving sustained reductions in greenhouse gas (GHG) emissions is the role of renewable energy. The shift from fossil to renewable power generation is at the heart of every country's Nationally Determined Contribution (NDC) and globally the share of power generation capacity that needs to come from renewables needs to increase from 33% in 2018 to over 90% by 2050 with onshore

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[9] NICE (2012): The guidelines manual: Assessing cost effectiveness, https://www.nice.org.uk/process/pmg6/chapter/assessing-cost-effectiveness
[10] ICER (2022), Cost-effectiveness, the QALY, and the evLYG, https://icer.org/our-approach/methods-process/cost-effectiveness-the-qaly-and-the-evlyg/

wind and solar PV shouldering the lion's share of this growth.[11] 290GW of solar PV will need to be installed annually by 2030, and with 180GW installed in 2021, this looks demanding but achievable. Wind though is languishing on just 90GW of installations in 2021 (and flat on 2020) and will need to be adding 270GW annually in just eight years. This challenge is enormous but there is little alternative if global warming is to be kept in check. The WHEB strategy holds companies directly exposed to growth in renewables including both solar PV with investments in SolarEdge and First Solar and in wind with investments in Vestas.

The transport sector meanwhile is transitioning more quickly than analysts had anticipated. This is particularly true in the light duty vehicle segment. At Glasgow, a group of countries and automotive companies pledged to make all new vehicles zero emission vehicles by 2040 and by 2035 in advanced markets. There were some important absences from this group, with neither the US nor China committing, but the pledge did include GM, Ford, Mercedes-Benz and many other auto companies. Meanwhile sales of battery electric (BEV) and plug-in hybrid electric (PHEV) vehicles continue to accelerate. Sales figures are expected to top 5.6m globally in 2021, up more than 80% on the previous year.[12] In the UK, in December 2021 BEVs alone accounted for more than a quarter of all vehicle sales.[13] WHEB portfolio businesses including **Aptiv**, **Infineon**, and **TE Connectivity** have direct exposure to the growth in BEVs and PHEVs.

Methane

The conference also made important progress on efforts to reduce methane emissions. Methane is a potent GHG and has a shorter residence time in the atmosphere. Efforts to limit emissions in the short-term can therefore have an outsized effect in reducing levels of warming. A commitment

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[11] https://www.irena.org/publications/2021/Jun/World-Energy-Transitions-Outlook
[12] https://www.greencarcongress.com/2021/11/20211110-bnef.html
[13] https://heycar.co.uk/blog/electric-cars-statistics-and-projections

to reduce methane emissions by 30% by 2030 (from 2020) was agreed with big emitters such as the US, Brazil and Indonesia on-board. However, other major emitters such as China, Russia and India did not sign-up.

Fossil fuel production is a large source of so-called ‘fugitive’ methane emissions and the WHEB strategy has no real exposure to this sector. However, agriculture is another major source, with beef production alone contributing approximately 7% of all GHGs. The WHEB strategy is invested in the Dutch firm **DSM** that, among other things, manufactures a feed additive for cattle that reduces methane emissions by up to 30%.

…and Monreal

The horrifying images of the Elz river bursting its banks in Monreal, Germany over the Summer brought home – at least to European audiences – the threat posed by climate change and extreme weather. Similar scenes of devastation are now frequent occurrences around the world. The Glasgow Pact provided for new national reporting requirements to support increased investment and coordination in efforts to adapt to the level of climate change that is now inevitable. The conference did also agree commitments from developed countries to provide $40bn in funding for adaptation by 2025.

The WHEB strategy invest in two businesses that will enable communities to adapt more effectively to these more extreme levels of precipitation and flooding. **Arcadis**, a Dutch consulting environmental engineer, has already helped cities and communities such as New York City and New Orleans to adapt infrastructure and planning to accommodate more extreme weather. **Advanced Drainage Systems** manufactures stormwater drainage systems that help to control and manage flood waters.

Carbon trading, afforestation and agriculture

The Glasgow conference also made progress on a wide range of other issues. There was a deal setting out the detail on the market mechanisms needed for trading carbon emissions. Progress was made on efforts to reverse deforestation and spur innovation in low impact agriculture. Both of these programs are aimed at reducing GHG emissions, but also critically, they are intended to better protect and support the recovery of biodiversity.

Ultimately the Glasgow conference was only ever going to be a step down the road to a zero-carbon economy. Planning for COP27, taking place in Egypt in November 2022, is already well underway and more progress will be needed then.

ENGAGEMENT ACTIVITY

Biodiversity – mitigating damage and maiximising benefits

During the fourth quarter, WHEB's independent Investment Advisory Committee asked the investment team to set out our approach to tackling biodiversity loss in the strategy. We presented a discussion paper to the Committee and the summary minutes of this discussion are published on WHEB's website.[14] We've also described our approach in more depth in our January monthly commentary.[15]

The key conclusion from this analysis is that WHEB's portfolio is, to a large degree, not invested in the sectors of the economy that create the largest negative impacts on biodiversity. That said, there are of course areas in the portfolio where negative impacts on biodiversity are more material. Our analysis concluded that several of these businesses, including **Smurfit Kappa** and **Arcadis** already give biodiversity impact a high management priority.

However, there are other businesses for which biodiversity impact is significant and which, in our view, do not assign sufficient priority to the management of this issue.

Renewable energy generation

Renewable energy generation is central to tackling climate change which is itself a major threat to biodiversity. At the same time, the deployment of wind turbines and solar panels can also have direct impacts on biodiversity. These can be negative, but if well managed they can also be positive.

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[14] https://www.whebgroup.com/media/2021/11/202110-Summary-minutes-final.pdf
[15] https://www.whebgroup.com/whebs-approach-to-biodiversity/

We have been engaging with **First Solar** to better understand their approach to biodiversity and the potential impacts associated with solar farms. First Solar has sold its project development business but nonetheless as a supplier of solar modules has an important role to play in addressing biodiversity impacts, in our view.

The company has been reasonably proactive on this topic and has worked directly with environmental NGOs such as WWF in order identify bast practices in solar park development and has also contributed to academic and industry research aimed at codifying best practices.[16]

Much of this work is though quite old, and more recent research has indicated that with sensitive siting, construction, operations and decommissioning, solar parks can have a positive impact on biodiversity.[17] This is particularly true in areas that have previously been intensively farmed or have otherwise been developed such as airports or brown field sites.[18]

We have been pleased to see that First Solar has taken a proactive approach to encouraging best practices in mitigating negative and maximising the positive impacts of solar power on biodiversity. We have encouraged them to continue with this leadership and to report more comprehensively on their activities.

We have also begun to engage with **Vestas** to understand their approach. Wind energy faces similar issues to solar, with the negative impacts of wind turbines on bird and bat populations particularly well documented.[19] Equally wind power, and particularly offshore wind power, can also have a positive impact on biodiversity by supporting the development of marine ecosystems and then in protecting those ecosystems as offshore wind parks are typically closed to commercial fishing activities. We will report on the outcomes of this engagement in future reviews.

Food industry and biodiversity

The second group of companies that we identified for engagement is businesses linked to food and agriculture. The strategy does not have direct exposure to agricultural businesses, largely because we do not believe that there are any listed companies in the sector that are delivering sufficient positive impact. However, both **HelloFresh** and **DSM** are in the value-chain and source a variety of foodstuffs and agricultural commodities.

We have already engaged with both companies to understand how they manage their exposure to agricultural practices that impact on biodiversity. Both companies have robust policies on sourcing controversial materials such as palm oil and soya. DSM in particular have set out detailed position papers on biodiversity and sustainable biomass. HelloFresh are further behind, but at their Capital Markets Day in December they identified sustainable sourcing as a key area of focus in the coming year. This includes setting minimum standards on traceability and sustainable certification for suppliers. We will continue to engage with the company to encourage them to include biodiversity considerations in these standards.

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[16] For example: http://awsassets.panda.org/downloads/solar_pv_atlas_final_screen_version_feb_2013.pdf, file:///C:/Users/SebB/Downloads/CSE_FirstSolar_Biodiversity_Whitepaper%20(1).pdf and https://c1.sfdcstatic.com/content/dam/web/en_us/www/assets/pdf/sustainability/sustainability-more-than-megawatt.pdf

[17] https://www.sciencedirect.com/science/article/pii/S1364032121003531

[18] https://www.vox.com/2021/8/18/22556193/solar-energy-biodiversity-birds-pollinator-land

[19] https://www.iucn.org/sites/dev/files/02_biodiversity_impacts_associated_to_on-shore_wind_power_projects.pdf

Managing divestments – responsibilities and opportunities

Last quarter we reported on our decisison to exit our position in **China Everbright Environment** Group.[20] Our decision to sell our investment in this company was in part driven by our inabiltiy to get the company to set more aggressive carbon reduction targets for their own operations.

As active shareholders, we do reserve our right to divest from companies that we think offer a poor risk/return/impact ratio. As we described in our third quarter report, our view on waste to energy as a positive impact technology has evolved over the years. Today, without aggressively seeking to minimise fossil carbon emissions, we do not believe that waste to energy can be considered to be a sustainable technology. The management at China Everbright Environment Group were unwilling to do this and so we chose to divest.

In selling this holding we have significantly reduced the scope 1 and 2 emissions associated with WHEB's investment strategy. However, the business continues to operate and these emissions are still being produced, though now without our inolvement as a shareholder.

We are intensely concious that divestment is not a solution on its own to reducing carbon emissions in the real world. However, we do believe that divestment can send an important signal to companies that their practices need to improve. This is particularly the case where clearly signalling the reasons for divestment is done both to management and to the wider market. As we have discussed elsewhere, this should be an important part of impact investing.[21]

In the case of China Everbright Environment Group, we published our rationale for divesting the business in our quarterly report and have posted this separately as an article on the WHEB website. We also wrote to the company and subsequently had a number of exchanges with executives setting out our belief that the company needs to significantly accelerate its efforts to set a net zero carbon taget.

Divestment and impact

It is relatively rare that we divest a business primarily due to concerns about a company's performance on environmental, social or governance issues. Where this is the case though, we have been public about these reasons for exiting the position. This was the case at China Everbright Environment Group and this was also the case at **Kingspan** that we divested at the start of 2021. We believe that we have a responsibility – and an opportunity – to influence corporate behaviour in being public in this way.

Public policy and standards

Sustainability Disclosures Requirements

From a policy perspective, the most notable development in the quarter was the publication by the UK's Financial Conduct Authority (FCA) of a discussion paper on a proposed set of

[20] https://www.whebgroup.com/media/2021/10/WHEB-Quarterly-Review-Q3-2021.pdf
[21] https://impact.whebgroup.com/white-papers/

Sustainability Disclosure Requirements (SDR) for funds marketed in the UK. The discussion paper was launched in early November with requests for feedback due in early January.

WHEB submitted a direct response to the FCA in early January and also participated in and responded to consultations from both UK Sustainable Investment and Finance (UKSIF) as well as the Institutional Investors Group on Climate Change (IIGCC). The key elements in our response were:

- To welcome the initiative as a key element in ensuring the integrity of the sustainable investment market in the UK;
- To support the broad structure underpinning different fund categories and aligning this with the EU's SFDR structure where possible;
- To question whether 'transitioning' funds, which will include any business with a credible 'transition' strategy, should be categorised as 'sustainable'. Our view is that the 'sustainable' category should be reserved for funds that contain businesses that have achieved 'alignment' with sustainabiltiy (and in particular have achieved net zero carbon emissions) and/or are explicit impact funds;
- To encourage the FCA to develop an approach based on principles that allow for some flexibility in application, rather than a set of detailed prescriptions setting out precisely how managers should perform.
- To adopt an underlying principle that reporting obligations shoud be limited for products that lay minimal claim to be investing sustainability and that should be progressively more onerous for products that consider sustainabilty as a more central investment objective
- To recommend that 'additionality' should not be used as a test for impact investment strategies. Instead, we suggest an appropriate test require that positive impact be an explicit part of every asset selection decision alongside the measurement of impact.

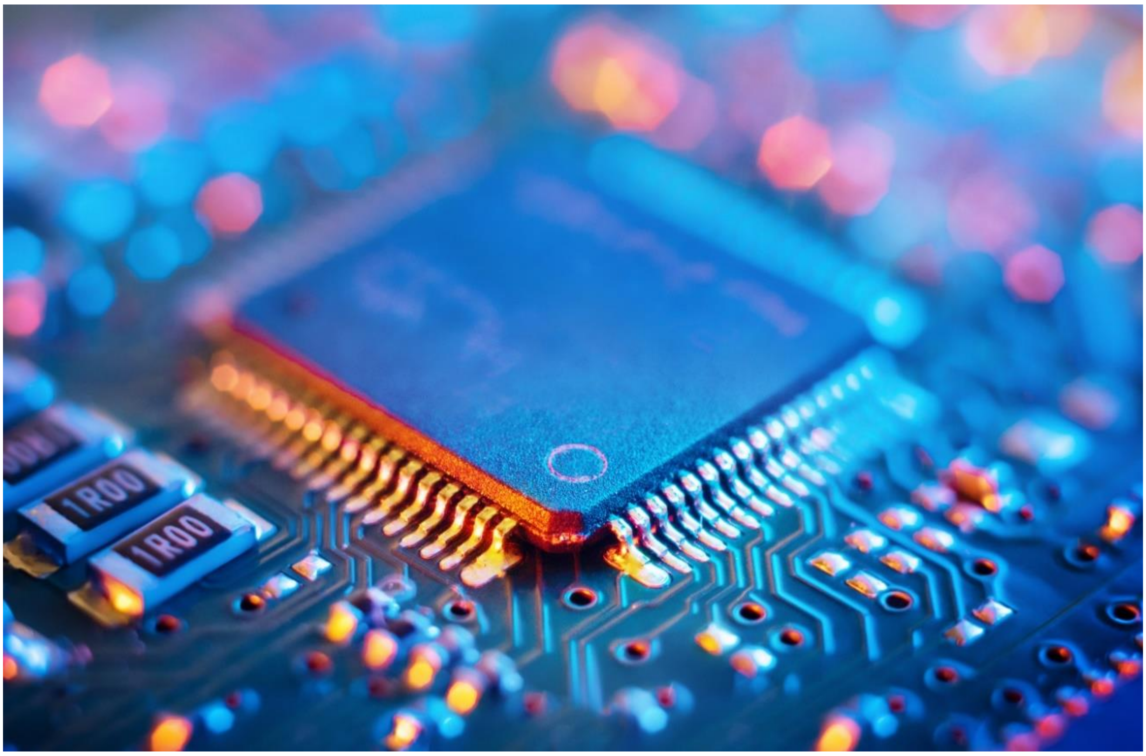
The input to the discussion paper is intended to inform the development of policy proposal which are expected to be published in a consultation in the second quarter of 2022.

PERFORMANCE COMMENTARY

Global equities had an overall strong quarter, with the Fund's global benchmark, the MSCI World Index (in AUD) gaining 7.1%. This rise came in the face of concerns over inflation, interest rates and the rapid spread of the new Covid Omicron variant. Investors showed optimism over corporate earnings growth in 2022, and the possible easing of supply chain constraints pushed the market further into positive territory for the quarter.

The Fund underperformed the benchmark with a return of 4.6%. Our Resource Efficiency and Health themes provided the strongest positive contributions to performance. They were offset by weaker performances from our Cleaner Energy, Wellbeing, and Education themes.

Our Resource Efficiency theme was the largest positive contributor in the quarter with **Silicon Labs** and **AO Smith** driving the outperformance. Silicon Labs is a semiconductor manufacturer, whose low-power products are used in sustainable applications including smart metering systems, fast-charging for electric vehicles and energy-efficient lighting. The company posted impressive revenue growth and showed that it was able to navigate global supply chain issues more successfully than peers. Another good contributor in the theme was AO Smith, a manufacturer of energy efficient water heating equipment and water treatment solutions. Its results demonstrated its strong pricing power, and in the current inflationary environment this was well received.



Our holdings within the Health theme also contributed positively. Steris was a key driver of outperformance. The company sells sterilising equipment and has benefitted more recently from a recovery in-hospital procedures and demand. Our life sciences tools companies, Thermo Fisher Scientific and Danaher, were also positive contributors after raising guidance. Encouragingly, both companies are seeing growth in their core businesses, as well as continuing growth in COVID-related areas.

The Thematic Selection Effect, which serves as a rough proxy as to whether investing in positive impact companies is creating a headwind or tailwind during the period, also helped this quarter. We remain confident the thematic selection effect should be positive over the long term as we transition to a more sustainable economy.

Leading the negative side of the ledger was our Cleaner Energy theme. Sentiment moved against Cleaner Energy stocks as it became apparent that President Biden's banner "Build Back Better" bill, which included over $500bn of clean energy stimulus, was struggling to pass through Congress. The withdrawal of support from key Democratic Senator Joe Manchin in late December sealed the fate of this piece of legislation.

There are still many regulatory mechanisms in place and even without these, the appetite for renewable energy remains strong in the USA. However, in the short term this has weighed heavily on all of our renewable energy stocks, whether in the solar or wind sectors.

Our Wellbeing theme also performed poorly this quarter with **HelloFresh** the biggest negative driver. At its Capital Markets Day in early December, HelloFresh outlined increased investments needed to capture burgeoning demand. These will weigh on margins in the short term, although long term growth and margin targets are unchanged. This guidance was received unfavourably but we believe these investments will position the company well over the long term. We see HelloFresh as uniquely well-placed as the world transitions to a more precisely managed food supply chain, powered by information technology.

Also in Wellbeing, **Orpea** and **LHC Group** were negative contributors. Orpea is an operator of nursing homes for the elderly as well as health clinics for post-acute care and psychiatric care. Many investors consider that its real estate portfolio leaves it vulnerable to interest rate risk, which is increasing. LHC Group, which provides home health services in the US, has been struggling with a tight employment market. However, we are gradually starting to see loosen and expect to see this reflected in LHC's results in due course.

Our Education theme also continued to struggle with our two education stocks, **Strategic Education** and **Grand Canyon**, underperforming. Enrolment in US higher education courses remains slow as students defer courses during COVID. Meanwhile, investors continue to fear action by the Biden administration against the for-profit education sector.

As 2021 closed, markets were closely monitoring the mounting inflation pressures and any global central bank policy shifts. Despite all these uncertainties, what remains clear are the growing commitments from governments and corporates on combating climate change. In 2022, our strategy will continue to engage with companies and policy makers to translate these commitments into action.

PORTFOLIO ACTIVITY

We initiated three positions and sold three positions in the quarter.

Recent purchase

We initiated a new position in **Fisher & Paykel** in the Health theme. Fisher & Paykel is the market leader in acute and chronic respiratory care. The company has been a pioneer in humidified ventilation technology and continues to innovate and expand into other clinical applications, both in the hospital and home care setting.

Fisher & Paykel's latest technology has very low levels of market penetration but recent changes to clinical best practice guidelines as well as positive momentum from its use during the Covid-19 pandemic should accelerate adoption and support future growth. The company has an attractive business model with a high proportion of recurring revenue. It also has a very strong market position.

We also introduced a new holding within our Cleaner Energy theme, **SolarEdge**. The company manufactures inverters and power optimisers for residential and commercial solar systems. It also sells energy storage solutions and EV chargers.

SolarEdge benefits from fast-growing demand for rooftop solar, particularly as a result of its dominant market position in Module Level Power Electronics (MLPE) which is gaining share relative to traditional technology. Relative to peers, we like SolardEdge's international exposure and its continuing efforts to innovate in adjacent areas within the home and also in commercial settings.

Within our Resource Efficiency theme, we initiated a new position in **Power Integrations**. The company sells integrated circuit (IC) power semiconductors which incorporate proprietary, industry-leading energy efficiency technology. Power Integrations has strong market positions across a range of end markets including industrials and renewable energy, and a leading position in consumer appliances in particular.

Growing demand for energy efficient products, supported by increasingly stringent efficiency regulations, should drive revenue growth in excess of the semiconductor market. Power Integration's growth should also come from a diverse range of end markets, including consumer appliances, renewable energy and electric vehicles.

Recent sales

We sold our position in **Cerner** in the Health theme. Cerner provides healthcare technology solutions including electronic records management and population health management software. We had concerns about the company's deteriorating competitive position and the potential impact on growth.

We also exited our position in **Littelfuse**. The company manufactures technologies in circuit protection, power control and sensing. It supplies into a range of electronic, automotive and industrial end-markets. We had reduced conviction in the company's ability to maintain its leading position in the auto market amid the EV transition.

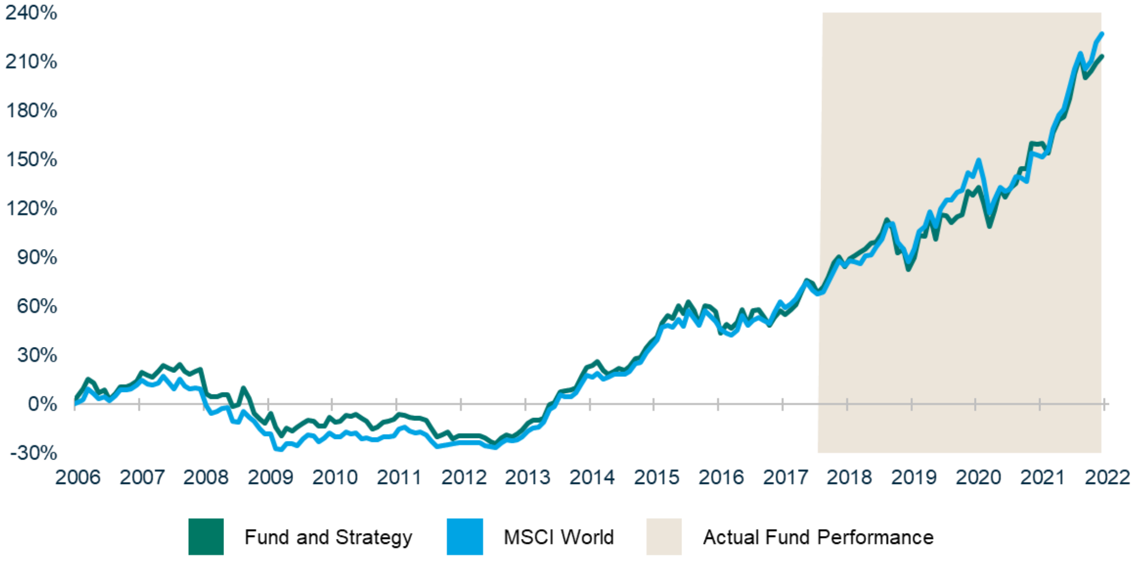
Within Cleaner Energy we exited our position in **TPI Composites**, an outsourced manufacturer of wind turbine blades. We maintain our confidence in the long-term structural story for wind, but this was outweighed by concerns about the company's quality following recent operational issues and a breach of its debt covenant.

INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 31 December 2021					
	3 mth	**1 yr**	**3 yrs p.a.**	**5 yrs p.a.**	**Since inception p.a.**
Fund	4.6%	20.9%	19.7%		
Strategy (partial simulation)[22]				14.8%	7.4%
MSCI World[23]	7.1%	29.3%	20.4%	14.9%	7.7%

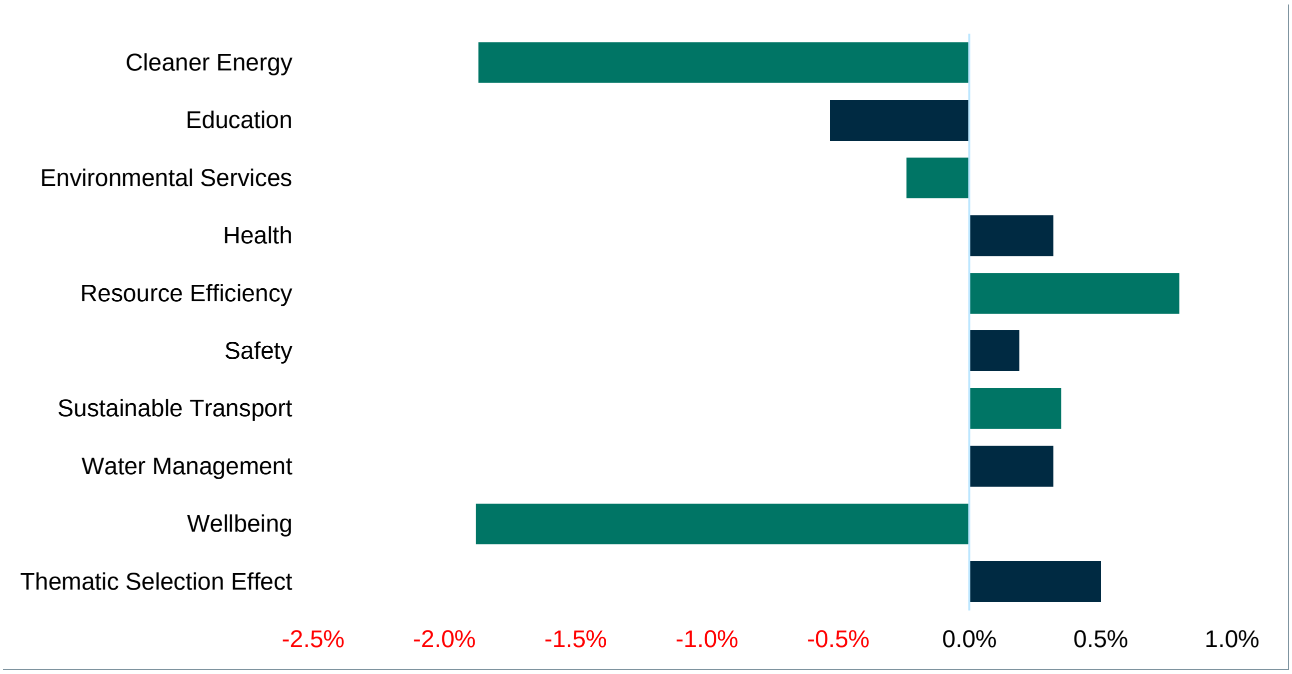
Performance Since Strategy Inception



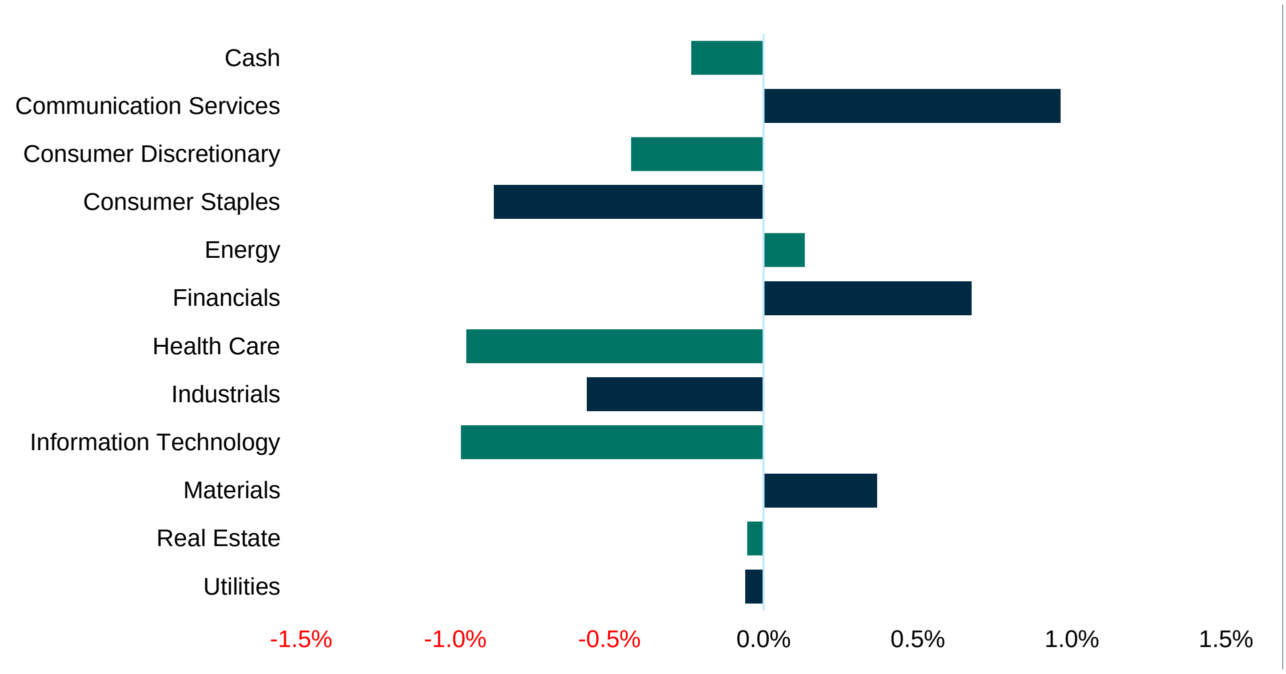
[22] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are zeroed. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.
[23] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[24]

Attribution by Sustainability Theme[25]

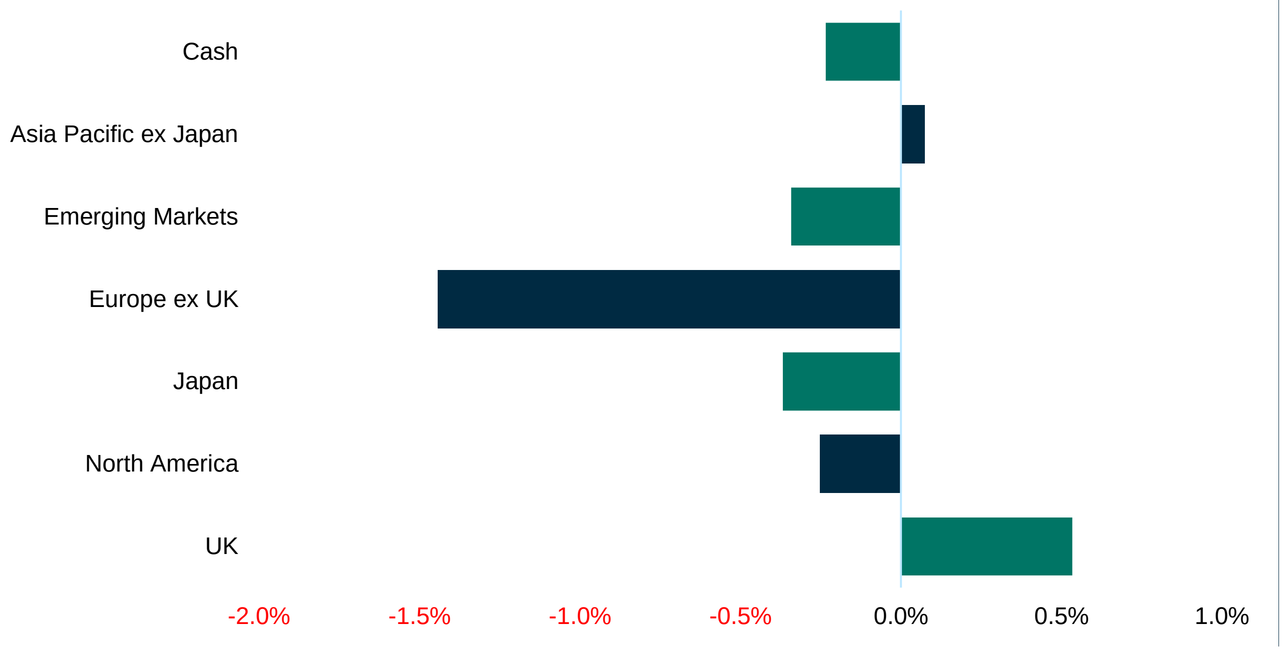


Attribution by Sector

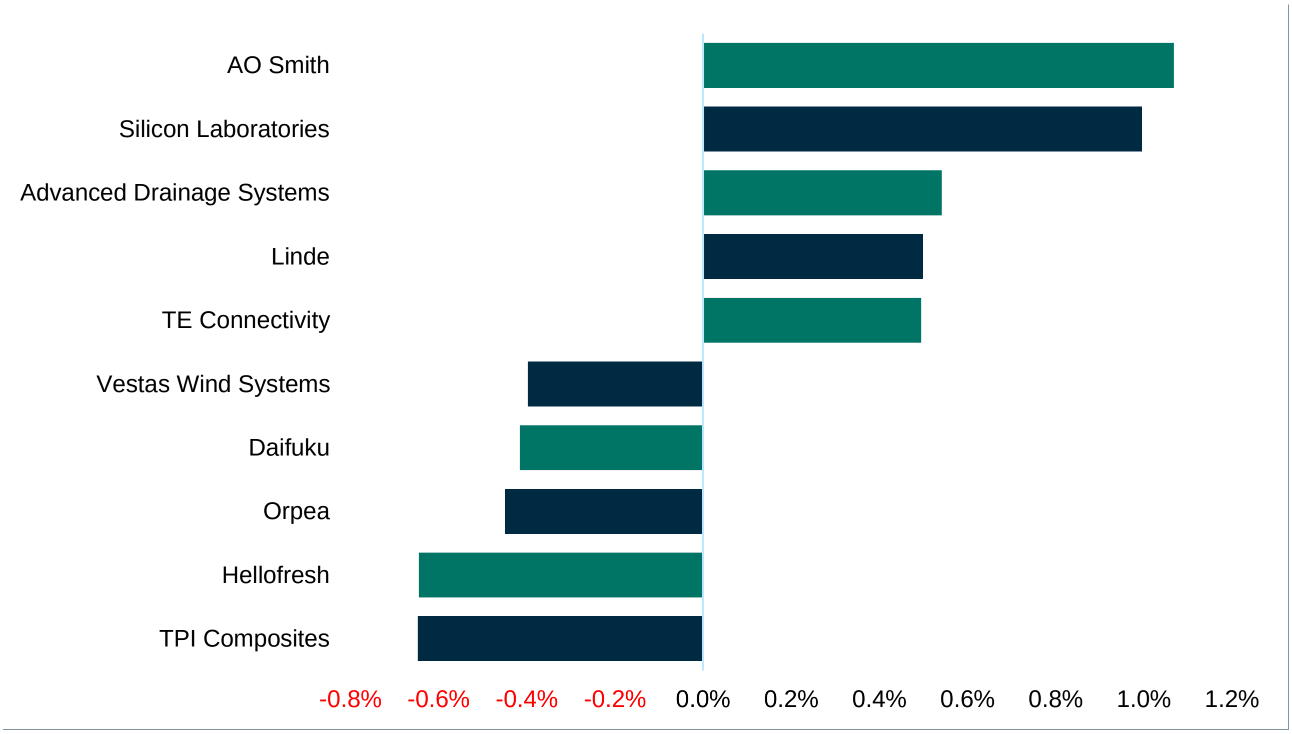


[24] Performance attribution is calculated with reference to the MSCI World Index
[25] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

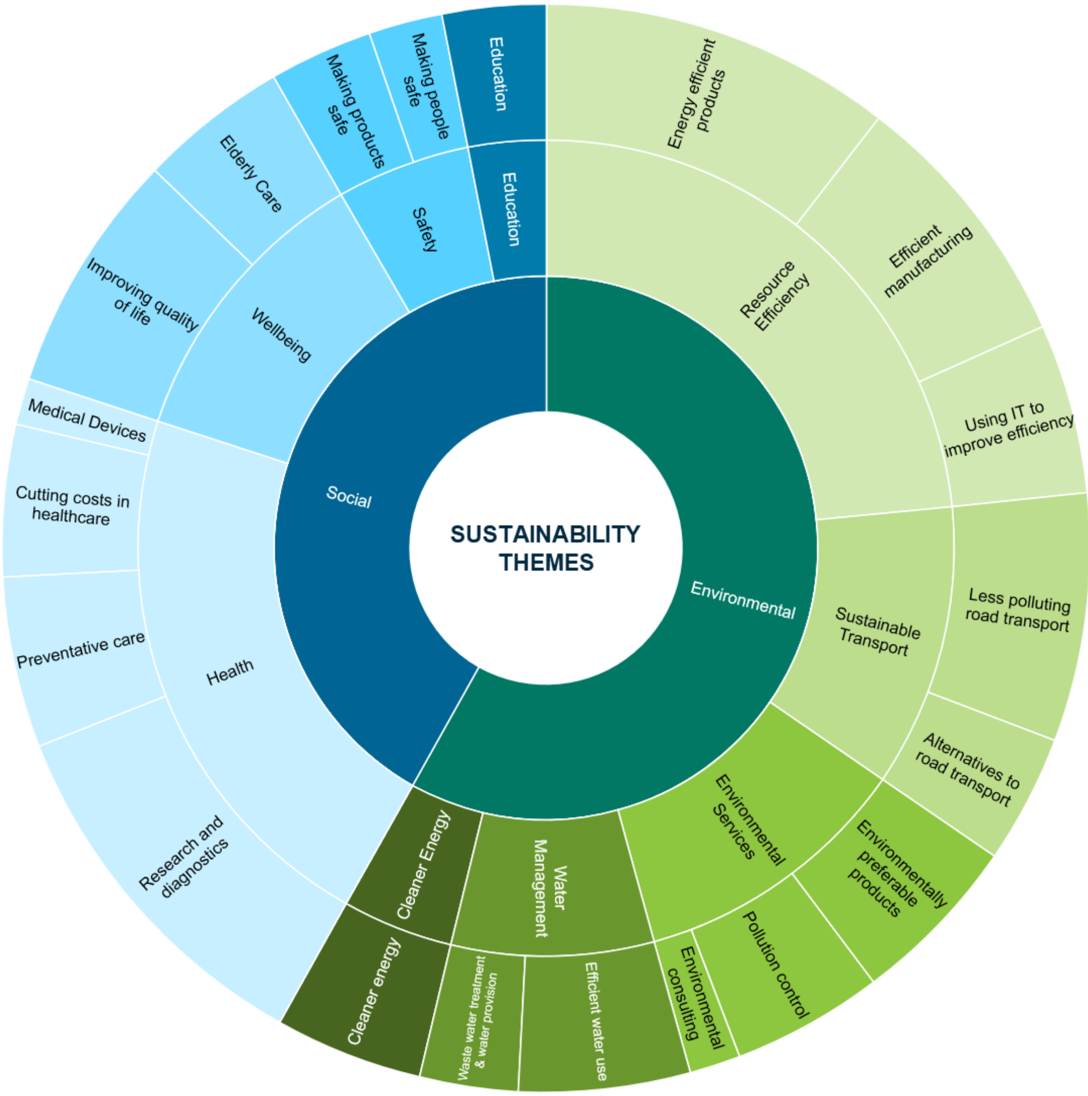


Contribution by Stock (Top and Bottom 5)



PORTFOLIO ANALYSIS AND POSITIONING[26]

Sustainability Theme Exposure



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[26] As at 31 December 2021.

Largest 10 Positions

Name	Sustainable Investment Theme	Description
Intertek Group	Safety	Making products safe
A.O. Smith	Resource Efficiency	Energy efficient products
TE Connectivity	Sustainable Transport	Less polluting road transport
Linde	Environmental Services	Pollution control
Icon	Health	Research and diagnostics
Danaher	Health	Research and diagnostics
Advanced Drainage Systems	Water Management	Waste water treatment & water provision
Ecolab	Water Management	Efficient water use
DSM	Environmental Services	Environmentally preferable products
Orpea	Wellbeing	Elderly care

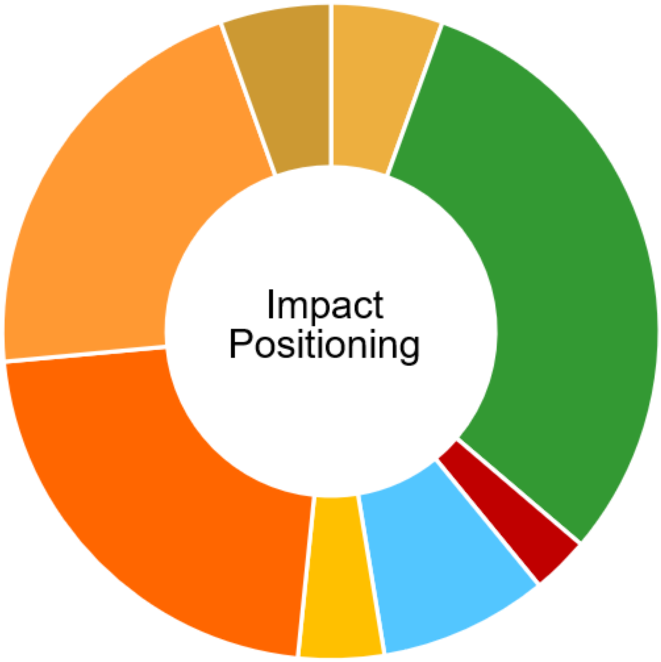
Strategy Characteristics

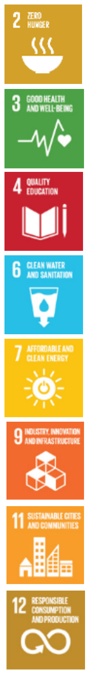
	WHEB	MSCI
FY1 Price/Earnings (PE)	31.37x	31.45x
FY2 Earnings Growth	15.36%	16.91%
FY1 PE/FY2 Earnings Growth (PEG)	2.04x	1.86x
3-year Volatility	14.88%	13.59%
Beta (predicted)	0.94	
1-year Tracking Error (predicted)	4.95%	
5-year Tracking Error (ex-post)	6.34%	

Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Fisher & Paykel Healthcare	Purchase	Health	High quality market leader in acute and chronic respiratory care.
Cerner	Sale	Health	Deteriorating growth and competitive position.
Littelfuse	Sale	Safety	Lower conviction due to concerns that the company will be unable to maintain its leading position in the auto market amid the electric vehicle transition, and that its position in consumer electronics may be weakening.
SolarEdge	Purchase	Cleaner Energy	Leader in Solar PV inverter market, developing a presence in storage and EVs. Structural growth supported by the technology advantages of MLPE (Module-Level Power Electronics) inverters compared with older style string inverters.
TPI Composites	Sale	Cleaner Energy	A very poor quarter and a debt covenant breach leads to our fundamental loss of conviction on quality grounds.
Power Integrations	Purchase	Resource Efficiency	Strong IP and exciting product pipeline with very clear energy efficiency advantages at the heart of competitive differentiation.

Impact Positioning: Supporting the UN Sustainable Development Goals[27]





6% in agriculture & nutrition

31% in health & well-being

3% in education

8% in clean water & sanitation

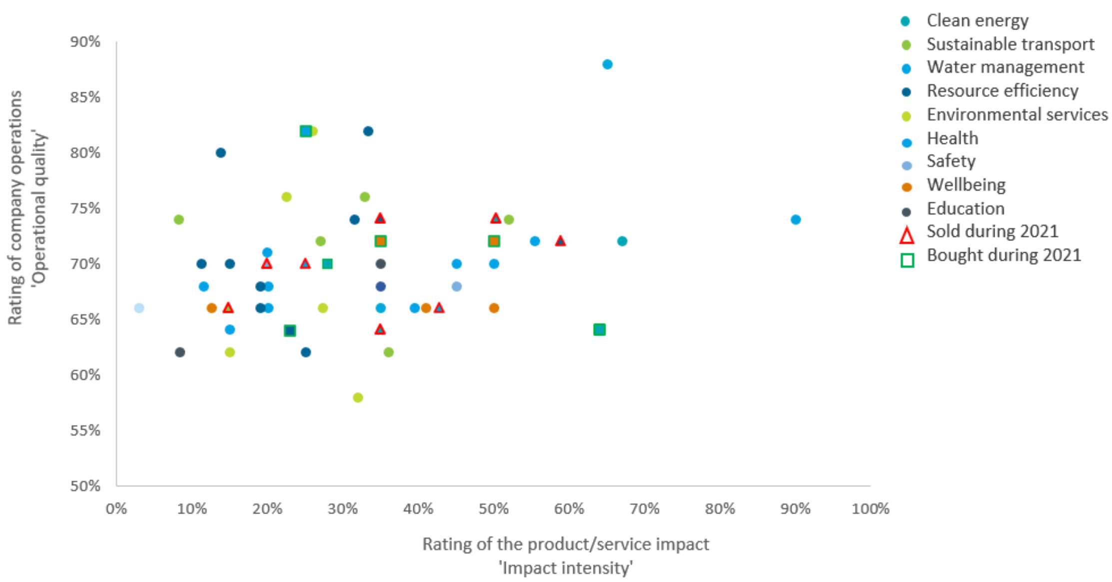
4% in affordable & clean energy

22% in industry, innovation & infrastructure

21% in sustainable cities & communities

6% in responsible consumption & production

Impact Map of the strategy's portfolio following changes in Q1 to Q4 2021[28]



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[27] For descriptions of impact mapping methodologies please see WHEB's impact reports, available at https://impact.whebgroup.com/methodology/. The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at https://impact.whebgroup.com/methodology/, and the impact positioning graph is described in detail in the 2019 impact report.
[28] As above.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q4 2021

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 October – 31 December 2021. Full details of how we voted on each of the individual votes are detailed on our website: https://pengana.com/our-funds/wheb-sustainable-impact-fund/

Meetings	No. of meetings	%
# votable meetings	2	
# meetings at which votes were cast	2	100%
# meetings at which we voted against management or abstained	2	100%

Resolutions	No. of resolutions	%
# votes cast with management	7	54%
# votes cast against mgmt. or abstained (see list in appendix)	5	38%
# resolutions where votes were withheld	1	8%

Company Engagement Activity

Company	Topic	Method	Detail	Outcome
Advanced Drainage Systems	Board diversity / CEO compensation / Auditor independence	Letter	Only 17% of the Board of Directors is female, the CEO's long-term compensation plan can exceed 300% of base salary, the auditor has been in place for eighteen years and there is no GHG reduction target.	Unsuccessful
AO Smith	Environmental targets	Conference call	The company has set internal targets for energy efficiency but has not set a net zero carbon target because of concerns about measuring scope 3 emissions	Partially successful
China Everbright Environment Group	Net-zero carbon target	Letter / Call	Divestment letter sent to the company setting out our reasons including because of a lack of a formal net zero carbon target.	Unsuccessful
CSL	Director independence / Excessive CEO remuneration / A lack of a NZC target	Letter	We received a letter acknowledging receipt of the letter and agreement to forward to the Chairman.	Partially successful
Daifuku	Net-zero carbon target	Conference call	Company has recently agreed a 25% carbon reduction target. No current plan to	Partially successful

			develop a longer-term net-zero carbon target	
Daikin	Net-zero strategy	ESG conference call	We again made our concerns known about the existing strategy. The co. indicated that they may review the targets following positive changes in national policies	Ongoing
DSM	NZC strategy	Letter	Further clarity on decarbonisation strategy including moving away from controversial solutions (eg use of biomass and offsetting).. Meeting date agreed	Ongoing
	Biodiversity	Email	Letter sent to better understand the company's approach to restoring biodiversity	Ongoing
First Solar	Carbon emissions avoided / Biodiversity impacts	Email	Company now reports carbon avoided and updated us on their approach to biodiversity. They will consider reporting in more depth on their approach to biodiversity.	Partially successful
HelloFresh	Single-use plastic	Email	Company plans to announce new targets for reducing single-use packaging in mid-2022.	Partially successful
	Unionisation and employee pay	Email	Allegations that the company has been involved in anti-union behaviour and paying below the 'living wage' in US operations.	Ongoing
ICON	Classified board	Letter	Classified board with directors appointed for more than two years.	Unsuccessful
Infineon	Conflict minerals	Letter	WHEB was a signatory to a collaborative investor letter sent to Infineon to clarify their approach to conflict minerals.	Ongoing
Lennox International	NZC target	Letter	Asking for a clear net-zero carbon target and strategy. The recent CMD had only brief mention of ESG issues and no mention of a NZC target.	Unsuccessful
Linde	Sustainability committee	Various	The company has created a new sustainability committee to oversee the company's strategy and policies on climate change and decarbonisation.	Successful
Littelfuse	Sustainability report	Various	The company produced a sustainability report in Q4. We have fed back our views on where it could be improved in future.	Successful
Orpea	Net-zero carbon emissions	Conference call	Company said that they will be launching a new ESG strategy in the new year and that it will 'probably' contain a net-zero carbon target	Partially successful
	Employee welfare	Group call	Company set out their approach to social dialogue, have established a European Works Council and is conducting employee survey in 1Q22.	Partially successful
Power Integrations	ESG disclosure	Meeting	We are encouraging the company to improve its relatively poor levels of ESG disclosure.	Ongoing
	Tax	Meeting	We questioned the responsibility of reporting sales in the Cayman Islands. The company argues it is legal and common in the industry.	Unsuccessful
Premier	Director independence / Overboarding / Sustainability director / Auditor independence / ESG and NZC target and link with incentive structures	Letter	AGM letter setting our concerns about lack of director independence, overboarding, the lack of a specific director with responsibility for sustainability, a lack of auditor independence, a lack of appropriate ESG targets, no NZC target and no links with CEO incentive structures	Ongoing

Smurfit Kappa	Biodiversity	Email	Email sent to the company to better understand the company's strategy in addressing biodiversity impacts.	Partially successful
Thermo Fisher Scientific	Single-use plastics	Call	We asked the company what efforts they are making to reduce the volume of single-use plastics. The company responded to say that single-use plastics are needed in healthcare but that they continue to research alternatives.	Partially successful
	Net-zero carbon target	Email	The company has agreed to have their net-zero target verified by SBTi	Successful
	ESG data disclosure	Email	Increase reporting of absolute environmental data	Successful
	Access to COVID testing	Email	The company will not disclose the monetary value of COVID-related equipment that has been donated to low and middle income countries but does plan to disclose further details on their access programme	Partially successful
Wabtec	Net-zero carbon target	Meeting	The company has not yet specified a date for achieving net-zero carbon emissions, but the management team is focused on this.	Partially successful
Xylem	Net-zero carbon target	Group meeting	Company set out the key priorities of their NZC strategy – still looking to develop a path to reduce scope 3 emissions	Partially successful